

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6300

BILL NUMBER: HB 1178

NOTE PREPARED: Dec 1, 2008

BILL AMENDED:

SUBJECT: Military pension income tax deduction.

FIRST AUTHOR: Rep. Blanton

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill removes the minimum age of 60 requirement for the military pension benefit income tax deduction.

Effective Date: January 1, 2009 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the removal of the minimum age requirement. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - This bill would reduce Adjusted Gross Income (AGI) Tax liabilities of individuals who receive military retirement or survivor's benefits but are under the age of 60 and not eligible for the military income deduction. By including those under age 60, additional revenue loss could potentially total \$2.0 M in FY 2010 and \$2.1 M in FY 2011. Thereafter, the revenue loss could increase by about 2% to 2.5% per year. All revenue from the AGI Tax on individuals is deposited in the state General Fund.

Background Information - The deduction for military income currently applies to retirement income and survivors benefits received by a person who is 60 years old or older. The bill would make the deduction applicable to retirees and survivors under the age of 60. In 2006, 38,440 taxpayers claimed deductions totaling \$76.2 M for eligible military income. The maximum deduction at that time was \$2,000. P.L. 144-2007 increased the maximum deduction from \$2,000 to \$5,000, and provided a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized. These changes went into effect in 2008.

Based on these changes, the revenue loss from the current deduction limits in FY 2011 is estimated to be approximately \$8.4 M to \$9.1 M.

Because the estimates provided above are based upon average pension or survivors benefits, the actual revenue loss may be less than projected to the extent that some retirees or survivors receive less than \$5,000 annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because removal of the age requirement would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

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